REMARKS

ON

CURRENCY AND BANKING;

HAVING REFERENCE TO THE PRESENT DERANGEMENT
OF THE CIRCULATING MEDIUM IN THE
UNITED STATES.

BY NATHAN APPLETON.

THIRD EDITION.

WITH AN APPENDIX.

BOSTON:
1857.
J. H. EASTBURN'S PRESS.

PREFACE.

No apology would seem to be necessary for publishing an essay on Currency and Banking. The derangement of our currency has brought the subject home to every man's business and bosom with an intensity which has made it the engrossing topic of the country. It is however a subject of great difficulty; as a science it is abstruse and recondite. In practical application, we find every possible variety of opinion; the great obstacle to the restoration of a sound currency is believed to be an erroneous public opinion.—In the hopes of doing something in reforming erroneous views the present slight and hasty sketch is offered. The object is to present those principles which have the sanction of the best writers on the subject and which all experience is believed to confirm, in a form to be applied to the present condition of the country.

Unfortunately the subject has been connected with the party politics of the day. Nothing can be more unfavorable to the development of truth, on questions in political economy, than such a connection. A good deal which is false, with some admixture of truth, has been put forward by political partisans on either side. As it is the wish of the writer that the subject should be discussed on its own merits and free from such contaminating connection, he has avoided as much as possible all reference to the political parties of the day.

BOSTON, MAY, 1841.

THIS pamphlet was published in 1841, in two editions, which were soon exhausted. It has been many years out of print, and frequently called for; the present state of the currency seems to render its republication appropriate to the times.

BANKS AND BANKING.

CIRCULATING MEDIUM.

The general consent of mankind has established gold and silver as the common measure of the value of all other commodities, and has given them, in the state of coin, the name of money. Some nations making use of one of these metals, some of the other, and some of both.

Coinage may be considered as merely the affixing a certificate of the government to the quantity of pure silver or gold contained in each coin respectively, on which alone its value depends. The fitness of gold and silver for the medium of exchanging all other commodities, arises from their containing much value in small bulk, from the difficulty of their quantity being materially increased, from their easy divisibility and their indestructibility.

It is usual to consider these precious metals as the *common measure* of other property; but they have another quality essential to their performance of the function of money. Their intrinsic value makes them also the *common equivalent.* They not only measure the value of other commodities, they replace it; this is an important distinction.

The laws of the United States establish the coinage and currency of both metals. By the law of 1792, gold was estimated to be worth fifteen times its weight in silver, which was, at that time perhaps, an accurate estimate of the actual relative value of the two metals. Since that period a decided and permanent change has taken place in that respect in favor of gold; and by the law passed in 1834, our gold coinage and several foreign coins are made current in the proportion of sixteen times their weight of silver.

The effect of this law is, to make an important change in our metallic currency. Previous to its passage, our whole currency consisted of silver; gold was merely merchandise, worth about five or six per cent. above its legal valuation. Since 1834, gold has been constantly displacing silver, and is becoming the basis of our bank circulation.

Banks are establishments for the purpose of carrying on a trade or traffic in money, or in contracts or obligations for the payment of money.

Bank notes are promises to pay on demand a given quantity of coin; they are promises to pay *money*, but they are not *money* in themselves. This is an important distinction, and the not making it is the source of most of the popular errors on the subject of currency.

Bank notes, payable in coin on demand, in the common transactions between man and man, are generally preferred to the coin which they represent. They thus perform all the functions of money, and in common parlance are called money. But there is an important distinction, and in strictness bank notes can with no propriety be called money. A bank note gives a *power* to command the coin, the money which it promises, at the pleasure of the holder. This *power* is more convenient, therefore more valuable to the possessor, than

the *thing*, the coin itself. This preference is the true basis of bank circulation. It is founded in the nature of things. It is essential, however, that this power should be real; that it should exist in fact; that the coin can be had on asking for. It is not, perhaps, surprising, that superficial observers, seeing the facility with which bank notes perform all the functions of money, without this power to command coin being put to the test, should become insensible to its existence, or disbelievers in its necessity. They see a *faith* in this power supersede the use of the power, and sanguine and visionary spirits are led to believe that the same *faith* may be built on some other basis, on something else less expensive than gold and silver. This is doubtless the origin of the various projects for furnishing a currency of paper not convertible into coin, to which every age gives rise, and which always find favor with the debtor class of mankind, but which are sure to end in chagrin and disappointment.

Bank credits, commonly called deposits, are of precisely the same general character as bank notes; they arise from the deposit of coin or bank notes, from the collection of individual notes, or bills of exchange, or from discounts made by the bank for the parties to whose credit they are placed. However originating, the bank admits them to be a debt payable in gold and silver on demand.

They remain to the credit of the party owning them, because a bank credit, like a bank note possessing the power of commanding the coin at any moment, is preferable to the possession of it in specie. Bank notes and bank credits are convertible into each other at the pleasure of the possessor. They are essentially the same. It has been sometimes made a question whether bank credits can properly be termed *currency*.

It is a question about words, and of little importance, according to the sense in which the term currency is used. Bank credits consist chiefly of the money kept on hand by merchants and others for their daily use. Were there no banks, it would be kept at home in iron chests; and if so kept, whether in coin or bank notes, the question might be equally raised, whether these deposits in large masses should be said to be in circulation.

There is but one basis for a sound paper currency, the *actual power* to command the coin. It is true, no paper can circulate without *confidence*, but it is all important that this confidence should rest on a solid foundation. It is best it should be frequently put to the test. With us, it is not the want of confidence which has caused the derangement of our currency, but, on the contrary, the prolific cause has been, the giving confidence where it was not warranted, where it was not due.

Preference is then the only basis of a sound paper circulation, and it is not difficult to perceive the grounds on which this preference rests; facility of counting, facility of transportation or transmission, and security against loss or robbery. To these general advantages must be added a full assurance that the money will be paid *when* wanted and *where* wanted.

The place where a bank note is payable is of the utmost importance in order to secure its general circulation at par with specie. That place must be the commercial centre of the district through which it is to circulate.

The constant demand for remittances to this central point, will give to bank notes payable there, a constant equality with or preference over specie, through all the region drawing their supplies from that centre. Thus,

a bank note payable in Boston, will have a natural circulation through all that part of New England drawing their supplies from thence; but the moment the line is passed into the district drawing their supplies from New York, bank notes payable in that city, can alone supply a pure circulation, and so of the other great cities. Large towns or cities in the interior have a certain limited circle of their own, but for general circulation, bank notes must be payable in the great commercial cities.

The currency of depreciated paper, issued by banks paying specie, is owing to a departure from correct principles in this particular. The bank note is not payable at the *place* where the money is wanted. Previous to 1824, the currency of Boston and New England consisted mostly of country bank notes, subject to a discount varying at different times, but generally about one per cent. In 1824, what is called the Suffolk bank system, was adopted, by which the bills of all New England banks are virtually redeemable in Boston at par. The system is this: Certain banks in Boston have contributed a sum agreed on, to a common fund, and in consideration of the use of that fund, one of them, the Suffolk, undertakes to receive all bills of New England banks as cash, and collect them from the country banks. The mode of doing it is as follows: The country banks are invited to keep a fund in deposit at the Suffolk bank for the redemption of their bills. If they decline, the bills are sent home for payment, in which case nothing but a legal payment in coin will be received. The trouble attending this mode of payment soon induces the bank to yield to its true interest and keep up the deposit, since it can by doing so, keep a larger amount of bills in circulation than it would otherwise be safe to attempt. Under this system the

whole currency, centering at Boston, is convertible at pleasure into legal coin without any loss whatever—a state of things which does not probably exist in any other considerable city.

The State of New York is now suffering under a currency of country bank notes, depreciated in a small degree from being payable at places where the money is not generally wanted. It is impossible that bank notes payable at Buffalo can be preferred to specie in the city of New York; but it will be perceived at once that bank notes payable in the city of New York will be preferred to specie, not only in that city, but in Buffalo also, and throughout the whole immense region of which New York is the commercial centre. The legislature of New York has attempted a partial remedy to this evil, by compelling the country banks to take up their notes either in Albany, or the city of New York, at a discount of one half of one per cent. To be a complete remedy the notes must be made payable in the city of New York at *par*. Nothing else will make the currency of that State what it ought to be. [The State of New York has also adopted a system of requiring a deposit of stocks with a State officer as a security for the payment of bank notes. The great objection to this system is that it requires a double capital, one to purchase the stocks and another to redeem the circulation of the bank.]

This circulation of bank notes payable at inconvenient places is common to most of the commercial cities in a greater or less degree. All experience shows, in the earlier periods of banking, a tendency to a false public opinion in this particular, in every community. The note of a bank considered safe, situated in the country, is thought to be equally entitled to circulation with that of the city bank. This opinion is generally

sustained by a powerful country interest in favor of country banks. The true ground of bank circulation, preference over specie, is not understood. Shopkeepers and small dealers think it better to raise the price of their goods rather than turn away a customer who offers them any bank note. The class of money brokers becomes necessary in this state of things, and is supported out of this false state of the currency. The most perfect remedy is in the correction of public opinion, which would induce every individual to refuse to receive as money, any bank note not exchangeable for gold or silver without loss. It is in the power of the banks, however, of every commercial city, to regulate its currency. By receiving the notes of country banks on better terms than brokers can afford to do, and enforcing payment rigorously, they can make it for the interest of all sound banks to make an arrangement something like the Suffolk system.

Banks are highly useful institutions, properly managed and properly understood; but like other good things, they are liable to abuse. Many abuses are sustained by erroneous opinions on the subject.

To be useful, a bank must be founded on solid capital. The object must be the useful employment of capital. There is no other sufficient ground of assurance that the money will be paid *when* wanted. Banks are dealers in money. They should pay their notes whenever the convenience of the holder leads him to demand payment, with the utmost readiness. They should leave their circulation to depend on its true basis, a *preference*, and treat a preference for specie with the same courtesy as one for notes. It is true that a bank derives a profit from its circulation; but the bank becomes an abuse whenever it opposes any obstacle to the ready conversion of its

notes or credits into coin. That obstacle may consist in viewing the party making the demand in an unfriendly light. It is not uncommon to make a distinction in regard to brokers. It is sometimes attempted to cast an odium upon them as the cause of the inconvenient demands made upon needy banks. All this is false. There is little employment for money brokers where banking is in a sound state. Bad banking and depreciated currencies bring brokers into existence. They are not cause, but effect. Their vocation is wholesome. They are the mere agents of the public. They alleviate evils instead of creating them.

SUSPENSION OF PAYMENT.

All the evils of bank currency, however, are slight, being small in amount, local in their character, or temporary in their operation, compared to a suspension of specie payments.

This is the evil under which the United States are now suffering, and which is tolerated by public opinion to an extent which is truly alarming, as regards the future character of our currency.

Suspension of specie payments, is the gentle name applied to the failure or refusal to perform the promise contained on the face of the bank note; generally accompanied with a declaration of the perfect ability to pay, and the intention to do so at some future time. Properly viewed, this refusal deprives the bank note of the only quality which gave it circulation, the *power* to command the metallic money which it purports to represent. It becomes simply a broken promise, and, like other broken promises, of no other value than the chance that legal coercion may compel eventual per-

formance; or that the refusal may relax into a willingness to pay at some future time. It will be seen that its character has become totally changed; that instead of possessing the original principle which gave it currency, it becomes in the hand of each possessor subject to all the fluctuations which belong to doubtful and uncertain contingencies. It is true, that a single bank taking this ground will not be sustained—it is a failure—the bank cannot choose but break. But let a part of the banks of one of our commercial cities proclaim this intention, all the others follow, and the public submit, not only without a murmur, but give it their commendation. The State Legislatures give it their sanction, almost as a matter of course. The example is considered so good, that it is followed by acclamation, and sustained by the general voice. Like everything else in this free country, it is public opinion which establishes and continues this state of things, first without or against law—afterward the law is made to bend to this opinion. It is true, all affect to consider a condition of broken promises, and a depreciated currency, as an evil, but it is acquiesced in at once, as a sort of dispensation of Providence. The real evil is in a depraved public opinion, which tolerates this state of things at all. The remedy is simple—but perhaps not very easy—the correction of this public opinion.

It would not perhaps be difficult to show that a suspension of payment by the banks ought never to be tolerated at all; or in other words, bank notes should cease to perform the functions of currency after they have lost all their proper attributes; that the evil of a depreciated paper currency is a greater evil than any other which would be the result of maintaining a sound currency under any circumstances. Even the suspension of 1837, which is generally considered to have

been inevitable, and which was the result of a state of things, which, reasoning a priori, no man would have supposed it possible could exist, and which, it is to be hoped, never will exist again—that suspension has probably produced greater evils upon the community, considered in all its bearings, than could possibly have resulted, had the New York banks determined to continue to pay specie *at all hazards.*

Without however going into the consideration of this question, there can be no hesitation in maintaining the proposition, that under no circumstances should a suspension be tolerated but for an exceedingly short period—a few months perhaps, never so long as a year.

Money or currency is an instrument of the first necessity to a nation. No trade or commerce can be carried on without it. A nation using a currency wholly metallic may feel a scarcity of money, but cannot be drained of it, any more than a mechanic can be made to part with the tools necessary to carry on his daily business. Overtrade may take place in such a community. An excessive importation of foreign commodities may cause an exportation of the precious metals, to a degree of inconvenience. The scarcity of money resulting from such exportation reduces prices, the effect of which is to check importation, and promote the exportation of all commodities, and thus the evil soon cures itself, by the return of the coin necessary to its trade. No other considerable importation will take place until it has in this way recovered what is of all things most important to it, *its tools of trade.*

Precisely the same thing takes place under a well-regulated bank currency. It seems to be the opinion of the best writers on the subject, that the most perfect bank circulation would be one which should be precisely equal in amount to what the circulation of

the same country would be in the precious metals, were no other circulation permitted.

The great evil of the modern system of banking is the great fluctuation which it is liable to produce in the quantity of the circulating medium. This is easily understood. Bank notes being, as already shown, *preferable* for common uses to coin, and costing nothing to make; the process of increasing the circulating medium is very easy, and is certain to go on until it meets the necessary check in a demand for payment. This check the individual bank will receive in its exchanges with other banks. However individuals may in their transactions consider a bank note as money, the banks themselves take a different view of the matter. A bank balance can only be paid in coin. Here is a check upon an individual bank; but suppose all the banks expand simultaneously, or nearly so, to which there is a natural tendency, this check ceases to operate.

In the same way an expansion in one of the cities may be checked in consequence of balances being created against it, and being demanded in specie. But suppose the cities all expand at the same time, and there is a powerful sympathy between them, the check is only to be found in the rise of the foreign exchanges to a point which induces the exportation of specie. This foreign export of specie is in fact the only check to redundancy, to excess, in bank circulation.

An expansion of the currency tends to an advance of prices—excites commercial enterprize, and finally speculation and overtrade. High prices encourage importation and discourage exportation, a rise in the foreign exchanges follows, which causes an export of specie, which acts as a proper corrective by compelling the banks to call in a portion of their issues. This is done

by lessening or suspending their usual discounts. Here is action and reaction, very beautiful, and all very agreeable to the public, *except the last part of the process.* A contraction of the currency causes a pressure on the money market—reduces prices—paralyzes trade—brings out failures. This is all very disagreeable. It makes what is called hard times. But in fact it is always the return from a false position to a true one. It is never necessary to diminish a currency which has not been redundant. The violence of the pressure is in proportion to the extent of the overtrade; and generally the more violent the pressure the shorter the period.

A suspension of payment by the banks, is the alternative presented in order to avoid the pressure attending the contraction of the currency, to the degree necessary to stop the efflux of coin. But this pressure is working the cure of the body politic laboring under disease—the disease is an excess of bank circulation, producing overtrade, inflated and unnatural prices. The cure is contraction, producing a distress for money, a reduction of prices, perhaps failures. Suspension is no cure; it is merely postponement. It may be considered an *opiate*, which if justifiable at all, can only be justifiable where the paroxysms are so violent as to endanger life. There can be no wholesome action, until the purity of the circulation is restored. There is no escape from this necessity. It is after all a question of time. Is it better to be a long time ill with a lingering disease, or to submit to a painful remedy for immediate relief? Here lies the essential error in the case—the idea that suspension may be considered a remedy, a real relief—whereas it is almost sure to complicate the mischief. A continued suspension is sure to end in a violent convulsion.

But perhaps the worst part of suspension is its moral effect on the community. Banks are established as models of punctuality and honorable dealing; their notes have obtained circulation on the ground that the promise to furnish the coin on demand was of the most sacred character. They have become the depositories of the money of the community, under the most solemn pledge that it should be forthcoming on demand. The directors of banks are selected from those of the highest standing in the mercantile community—their obligation to carry out the provisions of the charter, and to fulfil the contracts made under it, would seem to be of the highest and most binding character. They are in fact the trustees of the stockholders and depositors, selected for this very purpose. It is difficult to perceive how honorable men, holding the office of bank directors, can reconcile a continued suspension to a proper sense of moral obligation.

The effect of a suspension of the banks is immediately apparent in its effect upon the moral sense of the community, as regards the obligation of contracts. The breach of contract by the banks is alleged as a sufficient apology for the breach of contract by individuals, and is generally received as a sufficient justification. The broken promise of a bank is offered and received as the only alternative on all contracts falling due. The grossest injustice is thus inflicted, which has no palliation but its universality. A. submits to receive a depreciated currency, because he can practise the same injustice upon B. The rights of creditors are sacrificed to the convenience of debtors.

A continued suspension commits a double injustice. The true value of a non-convertible paper currency, is accurately measured by its specie value in the market. Prices soon conform themselves to this unerring stand-

ard. A contract, therefore, founded upon a scale of prices under a depreciated currency, and executed in a purer currency, operates with equal injustice upon the debtor. It is probably for this reason, that a currency greatly depreciated is rarely restored, but generally goes on from bad to worse.

An admirable illustration of this is afforded in the currency of Buenos Ayres, where a bank was established, issuing notes as the representatives of Spanish dollars. About the year 1820, this currency depreciated very rapidly, and settled down at about 14 cents the dollar. At the last dates, the exchange on London was at 2¼*d* sterling, equal to 4½ cents to the dollar. It was considerably lower during the blockade. Can any one suppose that such a currency will ever be restored? Even this, however, has been outdone by some of the banks of Mississippi, where what was considered good currency one day, has, like Jonah's gourd, withered entirely in the course of a night.

There is no greater error than the supposition that a depreciated currency will, in time, cure itself. A redundant currency first shows itself in the rates of exchange with other places. These rise so high as to make coin the cheapest and most desirable remittance. The banks are called on to furnish this coin. It is then common to attribute the difficulty to an unfavorable balance of trade. Suspension ensues. The rate of exchange with places possessing a specie currency is a certain indication of the rate of depreciation. But there are those who will attribute all to an unfavorable *balance of trade.*

This is the state of public opinion in Philadelphia at the present time. They find the balance of trade continue unaccountably against them with New York and Boston, and consider it impossible for the banks to re-

sume until a change takes place *in their trade.* The real difficulty lies in the excess of their currency. A contraction of their currency is the only remedy; let them reduce their currency to the specie standard, they will find the exchange with New York come to par at once. It may, in fact, be necessary for them to reduce it so far as to turn the exchange in their favor, so as to bring specie from New York. This is their only alternative, in case the quantity in the city is inadequate to sustain resumption. There can be no doubt that Philadelphia is mistaking her true interest by postponing this process. There can be no wholesome sound trade under a depreciated currency. The restoration can as easily be made in two months as two years. Contraction must be made and the sooner the better.

It is not to be disguised that Philadelphia has been under the influence of false opinions on the subject of currency, since the suspension of 1837. These may probably be attributed to the influence acquired by Mr. Biddle on this subject. His elaborate letter to John Quincy Adams of April 5, 1838, placed the matter of suspension on a new ground, and one wholly unjustifiable. Instead of being put on the ground of inevitable and temporary necessity, it was defended as a measure of expediency, and to be continued indefinitely, until the happening of contingencies over which the banks had no control. It announced distinctly that the banks should not resume until a change took place in the administration of the general government. It also announced, in language not to be misunderstood, that no resumption should take place until the United States Bank was restored as the fiscal agent of the government.

It announced principles as false in political economy as its whole character was objectionable on the score of

mercantile morality. Such was the influence which Mr. Biddle had unfortunately acquired in Philadelphia, that his views, so speciously put forth, were adopted in that city without hesitation, and have continued to control their operations to the present time.

Fortunately, Mr. Biddle was unsuccessful in the principal object of his letter, that of preventing the New York banks from resuming. A small but determined party in New York, with Mr. Gallatin at their head, viewed the suspension in its true light—a state of disgrace and reproach, in which there could be no wholesome revival of trade, and not to be tolerated beyond the year granted by the legislature. New York resumed triumphantly in May, 1838. Boston followed her example. Mr. Biddle was driven by the force of public opinion from the ground he had taken. With a very bad grace he changed his position in July, and the Philadelphia banks resumed their proper functions. The banks of the South and West, with few exceptions, resumed their payments soon after, and the trade of the country revived to an extent and degree which left nothing to regret, but an apprehension that we were going too fast. This was too true. The efforts of the United States Bank, to bolster up an artificial credit, in order to cover its own weakness, produced an expansion of the currency, which, in its reaction, caused a considerable pressure on the money market. This soon showed the weakness of that institution, which again suspended in October, 1839. The other banks of Philadelphia follow without hesitation. Baltimore and the West, as a matter of course. New York and Boston stand firm, and thus preserve a sound currency to one half the Union, whilst the other half is given up to shin-plasters and depreciation.

At length the United States Bank changes its ground.

Mr. Biddle's prophecy that a continued suspension would not injure the credit of the country abroad, is not realized; Mr. Jaudon, the London agent, finds that the bank cannot sell its American stocks, or borrow money upon them much longer, without a restoration of the currency. He makes a voyage to America for the purpose of bringing about a resumption. After effecting a new loan of five millions of dollars on this side the water, and of four millions in Europe, the bank attempts to pay its debts on the 15th January last. But such had been the inconceivable mismanagement of that institution, that after twenty days' trial it broke down in inevitable and hopeless bankruptcy. Again the Philadelphia banks follow suit, without giving the attempt to stand alone a fair trial. Baltimore had become so imbued with the Philadelphia doctrine of the advantages of non-payment, that for a few days after the resumption in January she hesitated about fulfilling her pledge of resuming with Philadelphia. She of course went back into a state of suspension with perfect delight. She likes Mr. Biddle's "*repose.*"

The question now arises, what is to be done? How is the currency to be restored? The answer is simple and easy. Abandon your false theories. Philadelphia and New York have stood in opposition, as the representatives of antagonist opinions. New York and the North have gone for immediate resumption, with a present sacrifice, and a bank currency convertible into coin on demand. This portion of the country finds no difficulty in its present position. It enjoys a sound currency, and no scarcity of it. There is no want of confidence where it ought to exist. Its internal trade is in a healthy and natural state. All is well.

On the other hand, with Philadelphia, the South and

West have gone for indefinite suspension; they have preferred *present ease* with an inconvertible paper currency. The inevitable results of a depreciated currency have followed. The destruction of all general credit—the disgrace of broken faith—universal distrust. The remedy lies in retracing their steps. Let the solvent banks of Philadelphia decide at once to receive nothing which is not equivalent to gold and silver; to have nothing to do with *certificates of deposit* or any other moonshine; to reduce their liabilities steadily and manfully, until they become as scarce and as valuable as coin. Under this course resumption will come of itself within sixty days. We have a right to expect this course from the banks of Philadelphia. They have been the victims of Mr. Biddle's false theories long enough. The late astounding disclosures connected with the United States Bank, have sufficiently accounted for the opinions put forth by him, evidently to cover the weakness of the bank. They are now free from the incubus of that institution. Instead of appeals to the Legislature for relief laws, let them put forth their own energies, and the rich city of Philadelphia may soon resume her former standing and character. It is in fact believed, that a decided change in public opinion has taken place in Philadelphia within the last few months, and that a speedy resumption may be calculated on. Let her banks beware how they involve themselves in the embarrassments of the State of Pennsylvania; this partnership in insolvency will prove of all things most ruinous to the credit of both.

The Baltimore banks appear generally to be in a condition to resume with little contraction; but the city of Baltimore will suffer severely in the withdrawal of the small notes of the railroad company, convertible only into a stock depreciated some 15 or 20 per cent.

below specie. The issuing such a currency in so large quantity was a great mistake, as it will throw a heavy loss on people little able to bear it, but very able to clamor, as they will have just cause to do. The banks of Pennsylvania will make the same mistake, should they adopt the late law authorizing them to issue three millions in small notes, convertible into 5 per cent. State stock. It will be another downward plunge into the gulf where they have already found—how easy the descent, how difficult the return. No necromancy can make eighty cents pass for a dollar very long. It is a concealed forced loan on the banks for the whole amount. As the South and West have gone with Philadelphia in suspension they will probably not be long in following her example in resumption.

One of the fallacies put forth has been that no resumption ought to be attempted in the Atlantic cities, until a simultaneous resumption could be made throughout the whole country. This is a very convenient doctrine in favor of delay, but wholly unsound in fact. Every centre of trade can establish and maintain a sound currency for itself, if it choose to do so. The effect, instead of taking specie from it, is to bring specie into it from the suspended districts where it is not in use. This was fully proved in Boston, and the circle of circulation controlled by it, during the suspension of 1814, 15, and 16.

We must not expect to see a sound currency established at once, in all parts of the United States, under any circumstances. It is only by degrees that a depreciated currency will work its own cure, by the bankruptcy of one bad concern after another. There are no doubt many banks which never can resume, but which will for some time struggle on to maintain a currency, and finally sink into bankruptcy.

New Orleans has no apology for non-resumption, but that her banks think it more convenient and profitable than a sounder currency, and the public choose to submit to it. It is absurd to suppose that a city in which the article of cotton alone is annually sold to the value of thirty millions of dollars, for cash on delivery, or short bills on New York and London cannot maintain a sound currency. The difficulty lies rather in finding any apology for continued suspension.

To the example and influence of this great emporium of commerce may be attributed the continued suspension of the whole West. Here too we trace the fatal influence of Mr. Biddle, through the purchased agency of the Merchants Bank, which has been the constant advocate of non-resumption. Philadelphia in the East, and New Orleans in the West, should be held responsible for the longer continuance of this demoralizing system throughout the whole United States.

A NATIONAL BANK.

The existence or non-existence of a national bank, has been so mingled with the contests of the political parties into which the country has been divided, that the attempt to discuss it on its own merits, without reference to its political bearing, may be considered rash if not visionary. Yet it involves questions of political economy of the most difficult and abstruse nature, which can be little and imperfectly understood by the masses of the community. General Jackson made this question the symbol of party. The consequence has been, that for nearly ten years the mercantile business of the country has been agitated, and sometimes paralyzed, by the connection of banking operations with the struggles of party. It is to be hoped that this unholy

union will cease, and that the question of establishing a national bank, and the character of it, will be discussed on its own merits as a nice and difficult question, which it certainly is. At any rate it is in this view of it that it will be here presented.

That a national bank is so convenient as to be all but essential to the collection, safe keeping, and disbursement of the revenue, the writer can have no doubt. On this point theory and experience coincide. There can be no doubt that a bank, as fiscal agent of the treasury, can receive and distribute the moneys of the government, with more safety and ease than any other instrument or agency that can be devised. This is also undoubtedly its strongest constitutional basis. To afford proper security the bank must possess a certain amount of capital. For this purpose perhaps the least sum which it would be prudent to fix on, is ten millions of dollars. To such a bank, there would seem to be no reasonable objection.

Another ground put forward in favor of a national bank, embraced by a large portion of the community, is its necessity as a regulator of the currency. For this purpose a large, a magnificent bank is wanted, a bank with a capital of fifty or one hundred millions of dollars. To such a bank there are decided objections. As a regulator of the currency it is of doubtful utility. Banks issuing paper currency are established by the authority of the different States. They furnish a currency having no legal character, but having a conventional circulation arising from its convenience. These banks are good or bad institutions, according to their management. A bank which fulfils its promises by paying its notes on demand, readily and cheerfully, and furnishing capital to those who need it, is a good; but a bank which asks for credit, whilst it belies its own

promises, sets an example injurious to all sound morals, and is a great evil. But the fault lies in the community which tolerates such an abuse. Public opinion should prescribe the remedy. It is a melancholy fact that there is little security for the good conduct of banks, but in the power of coercion by law. It was legal coercion which brought the country banks of New England to a sense of their duty in 1808, when they had introduced a system of evasion or delay of payment of their notes. It is the penalty of two per cent. a month, enacted in 1810, which has insured their punctuality since that time. It is not too much to say that it was the legal penalty of forfeiture of charter, and the belief that the law could not be changed, which secured the resumption in New York, in 1838. It is owing to the unreasonable relaxation of the laws in Pennsylvania that Philadelphia is still suffering under a depreciated currency. When public opinion relaxes this power of coercion, under the influence of the debtor portion of the community, giving the banks a sort of immunity, it is certainly a bad state of things. This is our present state. But the evil will work its own cure. A national bank has no direct power of coercion. It can only act by moral force—the force of a good example—upon public opinion. With a correct public opinion, it is wholly unnecessary.

The chief argument in favor of the necessity of a national bank, as a regulator of the currency, is drawn from the facts that the suspension of specie payments in 1814, took place after the expiration of the charter of the first bank, and that a specie currency was not restored until the establishment of a new bank, which went into operation in 1817. The power of the bank in this restoration is much overrated. The suspension of the banks in September, 1814, was in consequence

of the advances made to government on loans and treasury notes, by the banks of the cities south of New England. These securities suffered a great depreciation, in consequence of no provision being made for a revenue to pay the interest, and to meet the great expenditures caused by the war. Boston and New England took no part in this suspension, having taken but sparingly of the government loans, partly, originally, on account of not approving the war, but chiefly as a matter of calculation, because there was no adequate provision for the payment of the interest. It is a gratuitous assumption, that there would have been no suspension had a national bank been in existence at that time. On the contrary, it is but fair to presume that such an institution, acting in sympathy with the necessities of the government, would have been the first to propose it. The government made no objection to the suspension of 1814; on the contrary, it received everywhere the depreciated currency of the local banks, and gave credit and support to the system.

Fortunately, peace came in February, 1815. With the peace, the credit of the government revived at once. The immediate restoration of the currency was universally expected. New York currency rose to within two per cent. of specie. It was the fault of Mr. Dallas, then Secretary of the Treasury, that resumption did not then take place. He refused to execute the laws passed by Congress for that express purpose. The immediate obstacle to the restoration of the currency in New York, Philadelphia and Baltimore, was the large amount of treasury notes held by the banks of those cities, many of them past due. The session of Congress expired on the 4th of March; but, in the short interval after the knowledge of the peace, a law was passed, authorizing a loan to the amount of twelve

millions of dollars, with a view to restore the credit of the government, and the character of the currency. The law was sufficient, but its execution was intrusted to Mr. Dallas, and, instead of executing it in its proper spirit, by negotiating the loan in the legal currency, he gave a new impetus to the issues of inconvertible paper, by receiving them in payment of stock, and passing them off as the only payment which would be made to the public creditors.

The fact is, Mr. Dallas was at that time a paper money man. An immense importation took place immediately after the peace. A great expansion of the banks in the South and West followed. The enormous amount of thirty-six millions of dollars was paid into the treasury in the year 1816, arising from duties alone. The golden opportunity for resumption had been allowed to pass by. The paper of Philadelphia fell to twenty per cent. discount. The government and the banks were involved as partners in all the enjoyments of a paper currency greatly depreciated.

At length the system would work no longer. In this dilemma, the late Bank of the United States was chartered, with a large capital, made up chiefly of government stocks. There is no doubt that the establishment of this bank had some effect in the restoration of the currency; but those who have a distinct recollection, or will study into the monied operations of that period, will make large deductions from the popular impression, that the establishment of that bank was an immediate and universal panacea. The truth is, the bank went into operation on false principles. It undertook to bolster up the fictitious paper money prices of 1816. It imported specie at a great loss,* which could

* Specie imported by the bank, July, 1817, to December, 1818, $7,311,000; loss, $525,297, or 7 1-2 per cent.

not be made to stay in the bank or the country in company with a currency so inflated. The whole system broke down in 1819, when Mr. Cheves was called to the administration of the bank, by whose energy it was barely saved from stopping payment. The restoration of the currency then took place; but not without producing a degree of pecuniary distress which has had no parallel since.

Another argument much dwelt on in favor of a large national bank, is its necessity to equalize the exchanges. There is not much in this. There is no difficulty with the exchanges where the banks pay specie. There lies the whole difficulty. Let that be reformed, and there will be no complaint on that score. The exchanges soon regulate themselves where the currency is uniform, as is the legal currency of the United States. A large bank with many branches, can manage the exchanges with *more profit to itself*, perhaps, than the local banks can do. The late United States Bank took care to charge the highest rates for exchange which the alternative of transporting specie would admit. For several years the exchange at New Orleans on northern bills was kept so high, that considerable shipments of specie were made from Boston and New York for the purchase of cotton. The change in our laws, which has made gold the basis of our currency, will have a most salutary effect in lessening the rates of exchange, whenever the banks resume their proper functions. The effect is already quite apparent on the exchanges between Boston and New York. Gold is constantly transported from one city to the other before the exchange can rise to a quarter of one per cent., which is consequently the maximum rate. When the banks paid out silver, transportation would hardly be attempted with an exchange below one per cent.

Another argument in favor of a great bank is, that it may furnish a paper medium which will circulate throughout the whole United States. Its importance, in this respect, is greatly overrated. A credit in New York, the central city, or a bank note payable in New York, will be more valuable than specie throughout the whole interior. Such notes, of known credit, will make their appearance whenever the people choose to pay for them. It is a curious fact, that the general currency of the United States Bank notes, in consequence of their being receivable everywhere in payments to the government, was considered a great evil both by the bank and the community. For six years the bank was petitioning Congress for an alteration of their charter, so that the notes of the bank should only be received for payments to the government at the offices where the notes were payable; and in February, 1823, a committee of the house of representatives reported in favor of bringing in such a bill. It is true that such an application was the result of false views of banking, but is a proof of the uncertainty of public opinion as to the true remedy of a disordered currency. During all this period, the country was working itself free from the disorders arising out of the suspension of 1814, 15, and 16, and it may be questioned whether the period of correction was hastened by the operations of the United States Bank.

It is not to be concealed that there are serious objections to the establishment of a bank of the magnitude and power necessary to the regulation of the currency. In the first place, such a power is wholly contrary to the spirit of our institutions, which are founded upon the principle of free competition; of action and reaction amongst equals. A great central power, independent of the general or state governments, is an anomaly in

our system. Such a power over the currency is the most tremendous which can be established. Without the assurance that it will be managed by men, free from the common imperfections of human nature, we are safer without it. Under a system of free competition, if one bank or one city go wrong, the evil is soon rectified. The laws of trade, left to themselves, are sure, and will soon cure the evils of individual misconduct or speculation. But if the regulator itself goes wrong, there is no remedy, or none without a convulsion.

In fact, the great and decided objection to a bank of great power, to act as general regulator of the currency, is the apprehension that *it may itself suspend specie payments*, under the sanction of the general government, and thus fix upon the country an inconvertible paper currency. This danger is much greater with a great national bank than without it. In case of a war, or any great financial embarrassment, such an institution, acting in sympathy with the predominant party in the general government, will be the first to propose this expedient, by which its circulation and profits will be greatly enhanced. In such a period, a few interested and influential individuals, under the talisman of party discipline, may easily carry such a measure; whilst institutions deriving their existence from the States, are protected by the constitution from any such legal assumption.*

There is, in the nature of things, greater danger of mismanagement in such an institution, where the interest of the managers is comparatively small, than in in-

* In 1819, a resolution passed the House of Representatives, directing the Secretary of the Treasury to report such measures as, in his opinion, may be expedient, amongst other things, "to supply a circulating medium in place of specie, adapted to the exigency of the country, and within the power of the government." Mr. Crawford made an able report against the substitution, in February, 1820.

stitutions of less capital immediately under the direction of parties more deeply interested.

Our experience under the last bank of the United States is not such as to give us any great warrant for the future. On going into operation, it fell into the hands of speculators, and in less than two years, lost more than ten per cent. of its capital, so that it made no dividends during the succeeding two years. As a regulator of the currency, its success was not remarkable. It was obliged to hire the banks of New York, Philadelphia and Baltimore, to resume, by agreeing to make large discounts in those cities.* It thus kept up the inflation of the currency, which was the evil of the time, and by doing so saddled itself with immense losses. Under the energetic administration of Mr. Cheves, the currency was indeed restored to its true character, by a rigid system of contraction, but accompanied with intense public suffering, which was indeed unavoidable, but made the bank and Mr. Cheves exceedingly unpopular, in extensive portions of the country. It was during this period that many of the States attempted to expel the bank from operating within them, by taxing the branches, and other modes of coercion.

Mr. Biddle came into the administration of the Bank in 1823, under the most favorable auspices, after the difficulties of the currency were, in a great measure, surmounted; and it cannot be denied that his management was for many years eminently successful, so far as the interests of the bank were concerned. It may however be doubted, whether the country is under any great obligation to him as the regulator of the currency, so far as relates to fluctuations in the money market. Severe revulsions took place in 1826, 1829, and 1832,

* In New York and Philadelphia, two millions each, in Baltimore a million and a half.

and the Bank of the United States took its full share in the expansions which preceded them. It was the general impression of those who watched Mr. Biddle's course, that he was a bold navigator; that he kept his ship under a press of sail, relying upon his skill in taking in canvas in case of a squall; of which he has occasionally given us evidence himself. Now a regulator should go for security rather than profit—with much ballast, carrying light sail. No one can doubt that his contractions in 1834, so distressing to the community, were pushed beyond reasonable measure, for the purpose, by that means, of effecting the renewal of the charter, under the pretence of the necessity of preparing for winding up its concerns, whilst his subsequent expansion had a full share in producing the mad and wild speculations of 1835 and 6.*

The subsequent developments of his opinions in reference to a continued and permanent state of suspension of specie payments, make it but too probable that a suitable opportunity alone was wanting, for him to have brought his ship into that harbor of "repose." He appears to dwell, with apparent satisfaction on the twenty-five years which were allowed the Bank of England, after the suspension of 1797. That suspension seems to have been with him a favorite topic. But he seems not to be aware of the moral distinction between that suspension and our own. The Bank of England suspended *by act of Parliament*, our banks suspend without law and against law, at the pleasure of the debtor party. The continued suspension of the Bank of England was a measure of State policy; certainly without the slightest necessity—and very bad policy no doubt, but very convenient, in order to con-

* Amount of U. S. Bank Loans, 1st Sept. 1834, 47,059,498.
" " " " " 1st June, 1835, 63,649,646.

ceal the real terms of the immense loans made during the war, and very agreeable to the bank directors, as enhancing their profits.*

A bank then, of ten, or at the utmost, fifteen millions of dollars capital, of which one-third might belong to the government, appears to be amply sufficient for performing the fiscal operations of the government. It should be restricted within that sum. The circulation should not exceed ten millions of dollars.

It should be a bank of safety rather than profit. It is not desirable that its dividends should exceed six, or at the utmost seven per cent. A reasonable assurance of that rate would be sufficient to induce capitalists to take up the stock. There are objections to limiting the dividends by law, as it might induce extravagance in salaries, or carelessness in the management. Possibly, however, it would not be objectionable, that the surplus should be allowed to accumulate for a period of years, then to be equally divided between the government and the stockholders.

It is believed, however, that the establishment of even such a bank had better be postponed until the currency shall be restored in the Atlantic cities. The resumption of specie payments in Philadelphia and Baltimore, can hardly be delayed much longer, now

* BANK OF ENGLAND.

Bullion, 31 Aug.,	1796,	2,122,950—	circulation and	deposits,	15,090,110
"	"	1798,	6,546,100—	"	"	20,481,330
"	"	1799,	7,000,780—	"	"	21,031,730

There can be no question of the perfect ability of the bank to resume at either of the two latter periods.

The loans during the war, were negotiated on the average, at about 60 for 3 per cents; that is, the government received £60, and issued stock for £100, bearing 3 per cent. interest per annum. In 1810, the currency was depreciated 25 per cent., so that the £60 was only worth £45. In 1825, the currency had been restored, and 3 per cents were worth £95 in gold; so that the lender of £45 received in 15 years, £45 interest, and £95 principal at the end of that period. Equal to an annual interest of about 10 per cent.

that the great advocate of non-resumption is out of the way. The attempt to establish a national bank will be a decided obstacle in the way of such resumption. It can only be established by the accumulation of a specie capital. The want of sufficient specie in the vaults of their banks is the only plausible ground for continued suspension in Philadelphia and Baltimore. An additional demand for the coin which they want, can only add to the difficulty of their obtaining it. At the same time, it will be much easier to put a national bank in operation after the currency shall be re-established than before. The details of such a bank will require time to mature. Its establishment is the last thing to be done in haste—or as a mere party measure.

In the meantime, a repeal or modification of the sub-treasury system would be desirable. The sub-treasury system is founded on mistaken views of the currency—it seems to suppose that coin is *better* than the notes of specie-paying banks, whereas in truth the notes are preferable to coin, so long as they contain the power to command it. There can be no doubt that banks, selected for their solidity, are safer depositories of the public money than any individuals whatever. The idea of keeping it piled up in a separate mass, in this banking country, is absurd and puerile. The sub-treasury law gives a sort of legal character to bank notes which is highly objectionable. By law all payments are only dischargeable in the legal coin, whether to the government or individuals. The banks, acting as the common agents of the community, employ the labor-saving machinery which their establishment has brought to so great perfection in bringing about these payments. At the same time it is no improper figure of speech to say that every payment made in well regulated specie-paying banks, like those doing business in New York

or Boston, is actually made in specie. No bank receives anything which is not equivalent to coin—which will not command coin, and for which it is not willing to pay in coin. The sub-treasury law, therefore, by compelling the sub-treasurers to receive certain bank notes, imposes a risk of loss by bank failures, which does not exist under the employment of strong banks. So far as it requires both debtors and creditors of the government to count their payments and receipts in actual coin, it is a retrograde movement in civilization. It is a refusal to adopt the improvements of the age. The great objection to the pet-bank system, as it was called, was the employment of banks not for their safety, but for their politics—the distributing the public money for the purposes of party.

[The establishment of the sub-treasury system was a hazardous experiment. But for the famine in Europe in 1847, which brought over twenty millions in gold into the country, it would have caused a tremendous pecuniary crisis. Being now established, no one would wish to disturb it.]

IMPROVEMENTS IN THE BANKING SYSTEM.

Our banking system is the subject of undeserved abuse. The system is better than the practice under it. The toleration of *abuses* under the system is the great evil. Still there are faults in it which might be remedied. One evil is the multiplicity of banks authorized to issue notes for circulation. All experience shows the necessity of legislative restraint upon the issue of notes for the purpose of circulation. The public security requires it. But under the present system, that security is wholly inadequate in most of the States

where banks with very small capitals, and those frequently nominal, are permitted to issue notes.

No bank should be permitted to issue notes without a solid, paid up capital, greatly exceeding its issues. A capital of half a million of dollars is the very least to which this privilege should be granted. New York has adopted a system of requiring a deposit of stocks as security for the payment of bank notes—but the law is deficient in making no certain capital necessary to carrying on the business of banking, and the public have suffered losses by the failure of the free banks, as they are called, from the circumstance of the depreciation or inadequacy of the stocks deposited. But the New York system has one advantage—its evils cure themselves. The idea that banking can be carried on without capital has been pretty fairly exploded under the experiment. [The great objection to the New-York system is that it requires a double capital, one for the purchase of stocks, another for the redemption of their bills, increasing the pressure upon them under a revulsion.]

The great and difficult problem in a currency of bank paper, is the prevention of those fluctuations, to which experience shows such a currency is liable, in a far greater degree than a currency composed wholly of the precious metals. This problem has not been solved. The attention of the British Parliament has been for some time drawn to it. A committee have published a voluminous report of evidence taken at the last session, which certainly does not shed much light upon the matter. Their inquiries are still going on. The writer has thought a good deal on the subject, and is of opinion that no better remedy can be devised against a redundant or excessive circulation, than the levying a tax, by the State, on the privilege or right of circula-

tion, to very near the amount of benefit or profit derivable from it. Nearly all the States require something in the nature of a bonus or tax for the privilege of a bank charter, but on principles wholly capricious or unsettled; whilst in others, the granting them is made a matter of favoritism, under the odious character of monopoly. Many advantages would arise from establishing the principle that every bank chartered with the right of circulation should pay a fixed tax on the amount permitted. The right to regulate the currency of bank notes seems properly to belong to the State, and to be a legitimate source of revenue.

The State of Massachusetts levies a fixed tax of one per cent. per annum upon bank capital. This tax is excessive in amount—is levied upon a false principle, and produces some evils. A tax of three per cent. per annum on circulation, would produce nearly the same amount of revenue, and be wholly unobjectionable in principle. The advantage of a tax upon circulation would be, that it would take away the inducement of profit, which every bank now has, to increase its circulation to the utmost—until the expansion of the currency shows itself in the export of coin—which can only be checked by a suspension of discounts, and a pressure on the money market. The bank, to be sure, has no difficulty itself in this case, if well managed. The whole pressure is thrown on the mercantile community.

But these alternations of bank expansion and nominal prosperity, followed by bank contractions, disappointment, and perhaps failures, are very much to be deprecated. A tax upon circulation might do much in checking undue expansion. A fixed minimum capital, and a fixed rate of tax upon circulation, would take away the character of monopoly from bank legislation

—as charters might then be granted to all who would take them, sufficient care being had to see the capital actually paid in.

Some of the States have gone into the business of banking on their own account. It requires no great spirit of prophecy to foresee that their banks will be badly managed, and the States become losers by the business. Banks, to be useful, must be founded on real capital, and, to be well managed, must be under the eye of the owners of the capital.

The law of 1834, by which such a valuation was put upon gold as makes it the essential basis of our circulation, is calculated to have a highly favorable effect in giving steadiness to the currency by enlarging that basis; it being necessary for the banks to maintain on hand a greater quantity of coin, on account of the facility of transfer attaching to that metal as compared to silver. This effect will be increased, should an error, apparently inadvertent, in that bill be corrected, by which too high a valuation is put upon foreign gold, compared to our own coin.* The consequence of this error is that there is a positive loss of about one-fifth of one per cent. in sending foreign gold to the mint, whereas the law should have been so framed as to make it for the interest of the holders of such coin to do it. The reduction of the valuation of sovereigns and napoleons, about one-half of one per cent., would remedy the evil, and give us an actual currency of eagles and half eagles as the payment which banks would find it for their interest to make for demands on them. The effect cannot be doubted—it would add materially to the specie in the country, and thus reduce the disproportion which paper bears to coin, which is the great vice in our system.

* Since corrected.

Another mode of giving additional security to the currency, would be the establishment of a system of more frequent and rigid settlement of balances between the banks themselves. The safe and prudent banks should use the power which they possess, to keep in check the bolder and weaker banks, by calling for their balances weekly, if not daily, in actual coin. The system which has grown up of letting bank balances lie until a foreign demand for coin appears, should be abandoned. It is liable to abuse, and it is the duty of the strong banks to put an end to it.

A timid apprehension of weakness on the part of certain banks in Boston, with a cautious endeavor to avoid losses in case of explosion, led to much of the expansion in 1836. A different policy might have prevented the panic and suspension of 1837.

No expectation of forbearance or indulgence should be encouraged. Favor and benevolence are not the attributes of good banking. Strict justice and the rigid performance of contracts are its proper foundation.

A repeal of the usury laws, so far as relates to notes of hand and bills of exchange, similar to that which took place in England in 1832, would undoubtedly have a highly beneficial effect in lessening the violence of a monied pressure, as there is abundant evidence it has done in that country. The pertinacity with which all the States cling to the usury laws, the remnant of the old feudal opinion that the people cannot be trusted to take care of their own interests, is remarkable—especially after the example has been set by England. In the late report made to Parliament on banks of issue, we find the testimony of Messrs. Norman, Tooke, and Lloyd, uniform in favor of the effect of the modi-

fication made in the law, in relieving the violence of a revulsion in the money market.

A bankrupt law applicable to banks would undoubtedly be the most efficient of measures for preventing suspensions of specie payments, and keeping banks within reasonable limits. Such a law, to go into effect in twelve months, would be the most effectual of measures for restoring and regulating the currency—to apply to a continued suspension of payment for thirty days. Constitutional objections have been suggested, but without much apparent force. Apparently nothing in the power of Congress would be so decidedly effectual as the establishment of such a law.

APPENDIX.

EXTRACTS FROM A PAMPHLET PUBLISHED IN 1831, (BY THE SAME AUTHOR) ENTITLED AN EXAMINATION OF THE BANKING SYSTEM OF MASSACHUSETTS IN REFERENCE TO THE RENEWAL OF THE BANK CHARTERS.

The issuing bank notes for circulation is incidental to the business of banking, but does not make a necessary part of it. The famous Bank of Amsterdam never issued notes. The Bank of England does so to a great extent. The bankers of London, however, never issue notes. In France, with numerous rich bankers, there is no paper circulation except by the Bank of France.

In the United States there has never, probably, been a bank established which has not issued notes for circulation. In fact, the issuing such notes is most frequently the leading object and motive. It may well be questioned, however, whether it would not be an improvement in our system to separate in many cases the right of issuing notes for circulation from the other branches of banking.

The public have a deep interest in the solidity and good management of a bank of circulation, whilst they have comparatively none in the management of a bank employing their own funds in making discounts only, or in buying or selling bills of exchange. It would seem, therefore, that the banks of the first class should be established on a principle of safety which might be dispensed with in respect to those of the second class.

It has not been uncommon for banks to have been gotten up, with a view to furnish funds for private speculation, or the private use of the principal stockholders; or the same object has been sometimes accomplished by buying up a majority of the stock, so as to control the choice of directors. It is obvious, that banks so situated, furnish a very unsafe circulating medium, since the solvency of the bank depends on the success and solvency of the principal stockholders, who, in such cases, are usually the directors. It is believed, that in all

cases of bank failures in Massachusetts, the failure of the principal stockholders and directors has accompanied, or preceded, the failure of the bank. The great point, therefore, to be guarded against, is, the liability of banks to fall into few hands, to be used for their private speculations.

This cannot be prevented by legislative provisions, under the present system. The only proper security is a large real capital. The return of the amount loaned on the stock of a bank as collateral, furnishes no criterion of the amount of actual capital; accommodation notes are as easily discounted as notes secured by stock. The whole security lies in A LARGE CAPITAL AND A SMALL CIRCULATION. A bank with large capital can hardly be controlled by any set of speculators, certainly not by those possessing little or no property.

The change proposed in our system is, that no bank should be allowed to issue notes for circulation, having less than a given amount of capital—say a million of dollars, or at the very lowest, certainly half a million. The right to issue notes should be restricted to one-third the amount of capital.

The effect of this change would be, that no banks of circulation would be established, except in the large commercial towns, in Massachusetts, perhaps only in Boston. This would insure them to be founded on real capital, the most important consideration. Large institutions of this sort, in the midst of an active mercantile community, *are under a surveillance*, which is the best possible guarantee to the public for the correctness of their management. There can be no better security for a circulation of paper, than institutions of this description would offer. They would also afford the best possible security against a currency depreciated on account of its being payable at improper places; as it would be obviously for the interest of such institutions, if not situated in Boston, to make their bills redeemable there.

An important advantage in favor of this system, would be, the lessening the number of the different descriptions of bank notes in circulation, which would very much lessen the difficulty of detecting counterfeits, and the trouble and labor attending the business of circulation as now carried on.

There can be no doubt that the plan proposed would furnish a safer, and more perfect circulation, than exists under our present system; but it is not to be disguised that there are serious difficulties in the way of introducing the change. One is, its interference with existing institutions, which look for the renewal of their char-

ters, and with the individual interests connected with them. Another, and the most formidable, its bearing upon the revenue of the State, derived from the bank tax, under the present system.

So far as regards existing institutions, in very many cases, the change would not be to their disadvantage; many banks would gladly give up the privilege of issuing bank notes, could they, by so doing, be relieved from the bank tax. In fact, this change would be rather advantageous than otherwise, to all banks operating upon real capital, and situated in places requiring bank operations. Those, whose chief or only business is the supplying a speculative circulation, would be deprived of that business, and a few might give up their charters altogether; but the profits derived from any description of banks are now so small, that the private interests, affected by a change, would not probably present a very serious obstacle, provided the change shall appear decidedly for the public good.

The subject of the tax requires a more serious consideration.

The State of Massachusetts levies, upon all the banks in the State, a tax of one per cent. per annum upon the amount of capital paid in. Under any point of view, the tax must be considered excessive. The bank charters imposing it were accepted in 1812, a time of great political excitement, which involved other considerations than mere pecuniary interest. Its expediency, in the full extent of it, has often been called in question, its constitutionality sometimes. As a mere tax upon property, it cannot be reconciled with the provisions of the constitution; since the proprietors of bank stock are liable to be taxed for its value in common with other property, in every general assessment of taxes. It can only be justified, as the grant of a privilege under a right, especially belonging to the State, in its sovereign capacity, that of regulating the currency. It is true, that the right of coining money, and of regulating the value of our own, and foreign coins, has been transferred to the General Government by the constitution of the United States. But the right of prohibiting and regulating the issue of notes, or obligations, intended to pass as a currency, must be considered as retained by the individual States.

There is no conflict of rights in this construction; the term currency, as used in common parlance, has two characters altogether distinct and different. The legal currency consists only of the coins made current by law, and is entirely under the control of the United States. Bank notes may be considered a conventional currency; they have no legal character as such, but depend for circulation, wholly on the choice or pleasure of the receiver.

The use of this right of regulating the currency of bank notes,

would seem to be a proper source, from which to raise a public revenue to any practicable extent. The benefit of bank circulation seems properly and peculiarly to belong to the public, and to be a legitimate source of public revenue; as the prohibition of issuing such notes, by individuals or associations, without authority, is a matter of public interest, and a proper protection against the losses, to which the community would otherwise be subject.

The business of banking (separate from the issue of bank notes) is a necessary branch of mercantile operations, resulting from a proper division of labor. A bank is employed, by the merchants and traders, to collect and keep safe their moneys, and to make their payments; for which purpose it becomes necessary to build secure vaults, and to employ a number of clerks and faithful officers. It is true, that when a bank keeps the cash of a great number of persons, the payments which are made by one, go frequently to the credit of another, so that the amount held in deposit is not subject to very material variation, nor liable to be called for at once. It is, therefore, agreed between the parties, that the bank is at liberty to loan such portion of their deposits as they think proper, only taking care to be able to furnish to each individual depositor his entire deposit on demand. In this way the bank is enabled to collect, keep, and pay away the money of the merchant without making any charge for the trouble of doing so; in fact, it is frequently the source of very considerable profit.

It may at first sight be thought that this source of profit, the receiving money in deposit, affords a proper subject of taxation; but a slight examination will show, that this ground is not tenable. As an original proposition, nothing would appear more absurd. If banks derive a profit which they are not entitled to, from holding in deposit the property of other persons, it is those other persons, whose money is lying unproductive, who are entitled to the profit, not the State at large. It is an affair between the parties, with which the public have nothing to do. If my banker do not transact my business on as good terms as he can afford to do, it does not give the legislature a right to step in, and claim those extra profits, which in fairness belong to me; much less should the legislature come between us, and claim a *douceur* for allowing us to transact our business together, thus putting it out of the power of the bank to do my business on as good terms as it would otherwise be glad to do. In some parts of England, it is the custom for bankers to allow full interest on balances in their hands, and charge a commission for transacting the business. The

Scotch banks allow interest on all deposits, but at a rate one per cent. below that which they charge to their borrowers.

The prohibition of individuals or associations from loaning money or making discounts without paying a tax for the privilege of doing so, is even more objectionable, it being a direct interference with private right, and opposed to every sound principle of political economy, inasmuch as the obvious tendency of such a measure is to drive capital out of the State.

The principle of our government, and of all free governments, is, that all property should contribute equally to the support of the government which affords it protection. The power of taxation, given to the General Court by the Constitution of Massachusetts, is limited by this rule as strictly as language can do it. It may not be possible, in all cases, practically to apply the principle with perfect equality; but it is highly important that the principle itself should never be lost sight of. Every attempt to levy a tax on any class or profession, as such, or on any one description of property, should be resisted as a violation of the free and equal principles of our government. Should any such tax have been adopted, it ought to be abandoned the moment its true character is discovered.

The idea has sometimes been advanced, that a tax might be levied for the privilege of an act of incorporation. This is a dangerous doctrine, and ought to be put down as equally opposed to the spirit of our institutions. Government is established and supported for the common benefit of all. The good of all is made up of the good of each and every one; if the facility arising from an act of incorporation will promote the good of the parties asking for it, who are the only proper judges, and if no improper injury to others is to be apprehended from it, the legislature is bound to grant it; and if granted at all, it should be granted without tax. A contrary practice would lead to the worst evil of the worst governments, a price upon legislation; a price would be paid for monopolies, and monopolies would be granted for a price.

If this reasoning is correct, the only ground on which the bank tax can be justified, is, that it is a tax upon bank circulation. Such a tax is justifiable and proper; it is a tax upon the gain, derived from the substitution of bank notes for specie, as a circulating medium, and which seems, of right, to belong to the body politic, rather than to any number of individuals. It is a tax of perfect equality. The office of the circulating medium is to facilitate the exchange of commodities; all property exchanged under the process of circulation, contributes equally to the tax imposed upon it.

It is entirely otherwise with a tax upon bank deposits, or bank discounts; a tax upon bank deposits is a tax upon the small number of individuals, owning the money deposited. But for this tax, the banks would allow to their depositors, as interest, all which they can afford to pay the State, as a tax. Such would be the necessary effect of a free competition.

Bank capital consists of money, which the proprietors do not choose to employ themselves, but have established as a fund, to be employed by the active and enterprising classes of society. It is thus placed where those classes can command it, at their pleasure, either in the way of loan, or by discounting their business paper. Abundance of such capital is, in the highest degree, favorable to public prosperity, by exciting industry and extending trade. A tax upon bank capital, as such, is a tax upon the fund destined to pay the wages of labor, and to keep in motion the wheels of commerce; it thus operates unfavorably upon all industry, and upon all trade; in other words, upon all the interests of the Commonwealth.* Abundance and cheapness of capital, and high wages of labor, act favorably and reciprocally upon each other, and, when united, are evidence of the happiest condition of political society. High wages stimulate industry, and thus add to the accumulation of comforts and capital; a tax upon bank capital, therefore, is an indirect tax upon the working classes of society. Any mode of raising revenue is preferable to one which touches the vital springs of industry.†

Circulation, therefore, being the only proper ground of bank taxation, it becomes a matter of interest to ascertain how far the present tax, under the present system, can be applied to the circulation, and what would be the effect upon the revenue of a change which should place the tax directly upon its proper object.

A fair estimate of the annual revenue, which might be derived from bank circulation, may be considered three per cent. on its amount. The average amount of specie, which it is necessary for a bank to keep on hand, in order to support a safe circulation, may be taken at twenty per cent., or one-fifth of the amount of bills in circulation. At the present rate of the interest of money, this would leave the bank two per cent., to cover the expense of preparing bills,

* "It is the circulating capital (money) which furnishes the materials and wages of labor, and puts industry into motion."—*Smith's Wealth of Nations.*

† "The experience of all ages and nations proves, that high wages are at once the keenest spur, the most powerful stimulus to unremitting and assiduous exertions, and the best means of attaching the people to the institutions under which they live."—*McCulloch's Political Economy.*

and as a profit. This may be thought rather inadequate, but may be considered a fair estimate of the tax which might be levied for the privilege of circulation, and which the banks would cheerfully pay.

The last return of the banks of Massachusetts, October, 1856, presents the following results, fractions omitted:—

Amount of capital in Boston, - - -	$31,960,000
Out of Boston, - - - - - -	26,638,000
	58,598,000
Circulation in Boston, - - - - -	$ 8,259,915
" out of Boston, - - -	18,284,400
	26,544,315
Deduct bills of other banks on hand, -	5,248,379
Net circulation, - - -	$21,295,936
A tax of one per cent. on capital, -	$585,980
A tax of three per cent. on circulation,	638,870

It must be considered a very sober and safe ground, to assume, that a tax of three per cent. upon circulation, will be more productive, during a period of ten or twenty years, than a tax of one per cent. upon capital, according to the present system.

The adoption of the principle of levying the bank tax upon circulation, may be made very simple and easy in its details. It may, or may not be combined with the principle of confining the right of issuing notes to banks of large capital. There can be no doubt, the doing so would establish the most perfect system; in which case, suppose 600,000 dollars fixed as the minimum capital for a bank of circulation, and 200,000 dollars fixed as the minimum amount for which the privilege of circulation should be granted; the tax will be 6,000 dollars per annum. The situation of a bank, now existing, with this amount of capital, would not be changed at all. Additional capital should be allowed, to any extent, without tax; and an additional right of circulation, with a proportionate increase of tax and capital.

Should, however, this change, in respect to the right of issuing bank notes for circulation, be thought too great an innovation on the present system of banking, while the principle of raising a revenue upon the right of circulation, to the full extent of its value, is admitted as the proper ground of taxation upon banks, a very simple opera-

tion will accomplish the object, in a manner wholly unexceptionable in principle,—equal in its application to all parties, and which will not, probably, affect the revenue at all. Let the present banks be re-chartered, with their present capitals, but reduce the amount of bills, which they shall be permitted to issue, to one-third the amount of capital, instead of the present limitation; making the tax, in effect, three per cent. upon the circulation permitted. This will very much increase the security of the public; as it will not only reduce the amount of circulation, compared to capital, to a safe standard, but will take away all inducement to establish a bank for the sake of the circulation; at the same time it will afford no bank any just cause of complaint, as it will put all on a ground of perfect equality. No one can doubt that the bills, issued by banks, having large real capitals, to three times the amount of their issues, are safer than those of small banks, issuing bills to the full amount of their capitals, many of which may be nearly or quite nominal, and are liable to be devoted to private speculation.

The whole question, therefore, resolves itself into the inquiry, whether the small banks have any proper or reasonable ground of complaint, at the proposed change. An answer in the negative, seems equally plain and inevitable. The privilege of issuing notes for circulation, is worth three per cent. on the amount allowed to be issued; the large banks, situated in the natural centre of circulation, are willing to pay that price for it; shall the small banks have this privilege, at a less rate, than the large banks are willing to pay? That is the simple question.

The only argument, on the other side, seems to be; the small banks have paid but two per cent. for the privilege, although it is worth three,—the large banks have paid $5\frac{1}{2}$ per cent. for the same privilege; one party has become used to a loss, the other to a profit. But is this a good argument for persevering in a system of so much inequality?

One other argument may be used in favor of banks situated in distant country villages; it may be said, that they cannot afford to issue bills on the same terms as the Boston banks; their circulation being forced and unnatural, requires extra trouble and expense,—and the keeping a fund of money in Boston, whither the bills are constantly tending in the course of trade; while the bills of the Boston banks circulate freely, and *require no nursing*. The public will judge, whether it is worth while to give up a system of safety, simplicity, and equality, in order to preserve an unnatural circulation, to a few such institutions. Wherever there is real capital, and a field

for monied operations, there should be no objection to the change proposed; since, after making the tax depend on the privilege of circulation, corporations should be freely created, with the privilege of discounting notes, and receiving deposits without being subject to taxation. They might be made subject to many of the restrictions and regulations, now imposed upon banks, for the security of depositors, on the same principle that they are imposed upon insurance and manufacturing companies. Existing banks should also be allowed to increase their capital to any extent, without tax, unless for an extension of the privilege of circulation.

The business of banking should be open to as free a competition as any other branch of commercial business; there should be nothing like monopoly, or exclusiveness about it; there should be no restriction upon any amount of capital going into it—the more the better for the public—the better for all trade and for all industry. Banks act merely as convenient brokers between the owners of the capital, and the persons employing it; the cheaper the rate at which they are enabled to transact the business, the better for both parties, and for every body.

It has been sometimes suggested, that large chartered companies, possess a dangerous aristocratic influence; that they are machines liable to be controlled by the rich for their own purposes, and dangerous to our republican institutions. This opinion can only arise from a superficial view of the subject. No more ingenious mode could possibly be invented, to paralyze the power of individual wealth, than the creation of monied corporations, where the property of the retired capitalist is placed at the disposal of the active men of business; for such, from the nature of the case, must compose the directors of these companies. What power does the original owner of the capital possess over it, after he has converted it into bank stock? None, whatever, except as a director; and a board of directors, consisting of mere capitalists, would be wholly unable to manage a bank, in competition with the young and active members of the trading community. A reference to the list of bank directors in Boston, will prove the correctness of this view. There are amongst them, some few men of experience and capital, who have retired from business, but the chief management and direction is always in the hands of those deeply engaged in the bustle of business. All the sympathies of these institutions are with the industrious classes. There is, therefore, no danger in permitting any amount of capital to flow into this channel, under our system of free competition.

A monopoly of banking is the most dangerous of monopolies.

Every project, therefore, for placing the banking business exclusively in the hands of great national or state institutions, is bad. The power of compressing or expanding the circulating medium, is too tremendous, and that of dispensing bank favors, too dangerous, to be intrusted to any one body of men.

It is important, that the institutions which supply this medium should be placed beyond the influence or control of the government. In times of difficulty, government is the first to wish for the facility of an inconvertible paper medium of circulation. The suspension of specie payments in 1814, was owing in a considerable degree, no doubt, to a mistaken public opinion, in the cities of New York and Philadelphia, on the subject of currency; but probably quite as much, or more, to sympathy with the wants and necessities of the general government, in the then disastrous state of the finances. The best security against a suspension of specie payments, undoubtedly is an enlightened public opinion, acting through and upon numerous rival banking institutions. It was public opinion which supported the Boston banks in adhering to a sound currency in 1814. The bank failures of 1809 had taught a salutary lesson. The public had become familiar with the phrase, suspension of specie payments; and had ascertained that it meant, *inability to pay.* It is to be hoped that the lamentable consequences of the suspension of 1814, fully developed in the revulsion of 1819, will at least have the effect to preserve the whole country from the recurrence of a similar calamity.

Massachusetts has been the first of the States to establish numerous banks with small capitals. The example has been followed by other States, and with like consequences of depreciated currencies and bank failures. It would well become Massachusetts to be the first to adopt a system which shall prove more safe and creditable to herself, and serve as a better model to others. It has been the object of the preceding pages to suggest the elements of such a system; which may be summed up as embodied in the following principles.

1st. The only proper basis of bank circulation is a large monied capital, exclusively appropriated to the business of banking.

2d. Public security requires, that the issues of a bank should bear a small proportion to its capital.

3d. Bank notes, to constitute a sound medium of general circulation, must be payable in the central points of trade, the large commercial cities.

4th. The profits derivable from the circulation of bank notes, are a legitimate source of revenue to the State; but,

5th. A State tax upon *capital* employed in the ordinary business of banking, is both unjust and impolitic, good policy requiring that capital should be allowed to flow into that channel with perfect freedom.

The practical application of these principles may vary in different circumstances. Taking into consideration the existing banking institutions of this Commonwealth, the simplest and most practicable mode of applying them would seem to be that which has been suggested; the renewal of the charters of all existing banks, with their present capitals, limiting the right of circulation to one-third the amount of capital, leaving them subject to the same tax as at present, being equivalent to three per cent. on the amount to which their circulation is limited. The tax in all cases to be relinquished, with the relinquishment of the rights of circulation, and no tax to be imposed on additional capital, where no extension of the right of circulation accompanies it.

How far these views shall be put in practice, it is for others to decide. At all events it is exceedingly important that the legislature should preserve an entire control over the bank currency, by reserving the right to regulate, by any general law, the amount of bank issues in proportion to capital, and the description of bills which may be put in circulation. There can be no objection on the part of existing banks to this reservation, so long as they are left at liberty to surrender their charters, and close their business, whenever they are dissatisfied with the terms imposed on them. It is unquestionably very desirable, that the proportion of paper in common circulation should be diminished, and that of specie increased. There is no doubt that the revulsions in the money market are more sudden and more severe, in consequence of so large a proportion of the specie in the country being collected in the vaults of the banks in the commercial cities, instead of being diffused through the community. A turn in the exchanges, which causes a rapid exportation of specie, compels the banks, as their stock of coin becomes reduced to the lowest admissible point, to check their discounts so suddenly, and so violently, as to produce great embarrassment and distress in the trading community; this would not be necessary in an equal degree, could their stock of specie be replenished, in some measure at least, out of the ordinary circulation. The limiting the circulation of bank notes to those of a denomination of five dollars and upwards, would bring a great amount of silver into circulation. It has been adopted in some of the States, with great public satisfaction. The objection to it in Massachusetts will be, that by reducing the amount of bank circulation,

it will reduce the profits of banking, and, of course, the revenue derived from banking. This objection will apply with quite as much force under the present system, as under the one proposed, since the inducements to a reduction of bank capital, under the present tax, will be increased, as the profits of bank circulation are diminished. This consideration may probably prevent the immediate adoption of a measure, the advantages of which are indirect and intangible, and which will require the sacrifice of a benefit which is direct and palpable. It would, however, be very unwise to put it out of the power of a future legislature to adopt the measure, should the experience of other States, and a further examination of the subject make it desirable.

LETTERS ON THE MONEY CRISIS OF 1857.

BOSTON, OCTOBER 1, 1857.

My Dear Sir:—It is many years since I had a correspondence with you on the subject of the financial state of the country, but it appears to me that the time has arrived which demands deep consideration and wise action.

New York is the head-quarters, and has a great responsibility in this matter so intimately connected with the prosperity of the whole country. Her banks are now evidently in a state of great strength, whilst the commercial community are severely pressed and brimful of fear. In this state of things, it appears to me that the duty and interest of the New York banks require at once a liberal increase of their discounts.

There can be no risk in it. No specie can be carried out of the city, because there is no place where it is more valuable. Boston can and will follow the suit of New York, and things might, in these two cities, soon resume their usual and natural course, and put an end to the cry of the merchants for suspension.

I should hope it might do more, and bring Philadelphia to her senses, and lead her to retrace her steps before it is too late.

A very short time will increase our specie from California and probably from Europe. I see nothing to prevent the country from assuming a state of the highest prosperity in its regular trade, if the present panic can be allayed.

Yours, very truly,

NATHAN APPLETON.

JOHN A. STEVENS, ESQ.,
President Bank of Commerce, N. Y.

MR. STEVENS'S REPLY.

BANK OF COMMERCE, IN NEW YORK,
OCTOBER 2, 1857.

My Dear Sir:—I fully concur in your views. It is true that New York has a great responsibility; the magnitude is oppressive, has been deeply felt and carefully weighed *for a long time.*

Our banks are prepared and now ready, and will soon be much stronger for the wise action of liberal aid to the community. More coin flows into the city from all quarters—from Philadelphia, from the West, and is already on its way from Europe.

A California steamer is due, with about half as much more as there is in all Massachusetts. Some of our banks have scarcely diminished their loans for two months, notwithstanding their aid to neighboring cities. The large banks have expanded, and will continue to expand. On the system of discounting, mainly only short paper, they always have money to loan.

When will yours confine themselves to short dates, and cease to encourage the pernicious system of long credits—credits ramified to the last degree, from which spring most of your difficulties? Our corresponding banks in Boston are advised that we will not press them for their balances.

Very faithfully yours,

JOHN A. STEVENS, President.

NATHAN APPLETON, ESQ., Boston.

MR. APPLETON TO MR. STEVENS.

BOSTON, OCTOBER 5, 1857.

My Dear Sir:—I have yours of the 2d, and am glad to find that you agree with me, and that your bank is expanding its discounts. I regret, however, that this course has not been adopted by the other banks, as the last official return (that of 26th ult.) shows an aggregate reduction instead of expansion in their loans. And the last reports do not show any alleviation in the stringency of the money market.

I beg you will use your influence for an immediate and very considerable expansion, so important as I consider it for the interests of New York and the whole country. I notice your remarks on our banks discounting long paper as encouraging the pernicious system of long credits. I have always been opposed to the system of long credits, but I recollect very well, as I was then in active business, that it was in consequence of 8 months being the established credit given by the New York importers, that we were obliged to submit to the same on our manufactures. I am not aware that the credits now given in New York, are shorter than those given in Boston. A good deal of improvement has been going on here within the last few years by offering large discounts for short time. I do not agree with you that the banks should confine their discounts to short paper, which, if good for the banks, is bad for the community. I have been for upwards of 40 years a director of the Boston Bank, during the greater part of which time they have confined their discounts to real business paper, which should be paid at maturity, and have not refused it even when having 6 months to run. This system has worked well, and always gives the bank enough coming in to meet any emergency. I hardly recollect a discount day, when the bank has not been able to discount some new paper. What I call a really pernicious system is that of making loans on call, which seems to prevail extensively in New York. This system, especially pernicious to borrowers, I hope is not adopted by your bank. I should think a bank with your large capital would find it difficult in ordinary times, to find business paper enough at short dates to meet their wants, and might frequently find it necessary to take accommodation paper with long paper perhaps as collateral. On referring to the published tables, I see that the banks of New York have lessened their liabilities from 101 millions, Aug. 15, to 81 millions, Sept. 24, certainly a most violent proceeding. The Boston banks reduced their liabilities from 23 millions, Aug. 17, to 19 millions, Sept. 28, something less in proportion. Our banks are obliged to follow the course of New York, but are in a perfectly easy position. It is their customers, the merchants, who feel the pressure.

Very truly, your obedient servant,

NATHAN APPLETON.

J. A. Stevens, Esq.

[For the Boston Daily Advertiser.]

THE MONEY CRISIS AND THE NEW YORK BANKS.

Messrs. Editors :—I have for many years been withdrawn from active business. I have been merely a looker-on, but not unobservant of the course of trade, and especially of our banking operations.

Our system of currency is a delicate one. It is founded on bank credits, resting on a very moderate basis of coin. When perfectly balanced, it works very well, but a slight derangement may produce a great deal of mischief. The great disturbing cause is a demand for specie for export, which can only be checked by a contraction of the bank credits. During the present year, we have been going on very smoothly, under full sail, when, about the middle of August, a sudden squall strikes us, which continues to increase to a terrific hurricane, threatening even to swamp the ship itself. The question arises,—how comes all this about?—what is the cause?

New York is the great central banking power. She sets the keynote to the whole country. If she expand, the whole country expands. If she contracts, it is felt to the remotest extremities. It is a tremendous power—that of increasing or diminishing the circulating medium of the whole country. It is a deep responsibility, and demands sound discretion and much wisdom in its regulation. Unfortunately, there appears to be no unity of action, no controlling principle, in the management of this power. It is divided between fifty-five banks, each acting its own separate part, under the influence of different opinions and different interests. There is apparently no individual of sufficient influence to bring this heterogeneous mass to unity of action in a crisis like the present, as was Albert Gallatin, whilst he lived. Banks are public institutions; they are founded for the public good; and the duty of consulting the good of the community in the use of their great power is as sacred as that of providing for their own safety.

The circulating medium of the city of New York consists in the liabilities of her banks in the form of deposits and circulation. Their daily loans and discounts increase or diminish these liabilities. As these liabilities are greater or less, is money plenty or scarce. They constitute the fund out of which all operations must be performed.

Hunt's Merchants' Magazine contains tables of the weekly returns of the banks of the city of New York for the years 1856 and 1857, which furnish a complete view of their operations. They throw a flood of light on the present state of things. The return for Jan. 3,

1857, shows 104 millions of liabilities, with 11,172,000 dollars in specie.

This varied very little from the returns of the preceding six months, and this state of things continued with little change, but with a slight tendency to increased expansion up to the 15th August. The greatest expansion was on the 2d of May, when the liabilities were 108 millions with 12 millions of specie. The return of 15th August shows 101 millions of liabilities and 11,360,000 of specie. From this a rapid contraction commenced, the liabilities being reduced on 5th September to 88 millions with 10,227,000 of specie. Here the contraction ought to have ceased. The object was to stop the export of specie. That had been done. Exchange on London had fallen below the point at which specie could be shipped without loss. Can any mortal man give a reason or an apology why contraction should continue a day after this point had been reached? The banks were then stronger than they had been for two years. But contraction did continue until, on the 3d October, the liabilities had been reduced to 76 millions—thus reducing the circulating medium of New York city, from July, 32 millions or upwards of thirty per cent. Tremendous! Was the like ever known in the history of banking? I have no hesitation in saying, it is this continued contraction of the New York banks since the 5th of September, without the slightest necessity, which has brought about the present disastrous crisis.

There was no decided general overtrade. There was no speculation, except by a few houses in the article of sugar. There was no doubt an excess of imports, but no greater than for several years, and the effect of these was wholly cured on the 5th September, by the rate of exchange on London. Why continue contraction further? Was not 88 millions with $10\frac{1}{4}$ millions of specie, being $11\frac{1}{2}$ per cent. as safe a proportion as 104 millions in January, with 11 millions of specie, or 11 per cent. on their liabilities.

There is but one answer. The New York banks have been acting under a panic, and that panic they have communicated to others, until there is almost a total loss of confidence. The consequences are before us, in the paralysis of all trade from Bangor to New Orleans, the stoppage of banks through a great part of the United States, the stoppage of factories, the discharge of thousands of laborers, the inability to bring our large crops of produce to market, the ruinous rate of two or three per cent. per month on the strongest paper, a ruinous depreciation in the price of all stocks, and even on exchange on Lon-

don. In my whole experience I have never known a crisis so severe as the present, and, I must say, so wholly uncalled for.

I was a bank director in 1814, when New York and all the States South and West suspended specie payments. Boston had ample means and stood firm, whilst many croakers thought it madness for Boston to hold on, when all the rest of the country suspended. She did so, however, and all New England with her, and thus saved them the losses which accompanied the resumption in other States in the terrible revulsion of 1819.

In 1834 Mr. Biddle was flagitiously endeavoring to force Congress to grant him a charter, through the distress he had it in his power to inflict on the country. In March of that year a committee of the merchants and bankers of New York informed him that unless he changed his course, and would agree to their terms, which were that the United States Bank should cease to call upon the other banks for its balances for thirty days, his course would be denounced at the adjourned meeting at the exchange.

Mr. Biddle, at the last moment, agreed to their terms, in consequence of which the country was immediately relieved. But Mr. Biddle was reckless enough, when the thirty days expired, without the slightest necessity, to call for these balances, and give the screw another turn.

This produced an intense and unexpected pressure, for it was the New York understanding that Mr. Biddle should not again press them without some show of necessity. This pressure he continued until the adjournment of Congress in July, when he gave up the chase, and soon after extended the loans of the bank from 47 to 63 millions.

There was nothing in that pressure to compare in severity to the present. It was wholly owing to the unprincipled action of Mr. Biddle.

The pressure of 1837 was wholly unlike the present. During a period of great overtrade, a few London houses imprudently created an American debt of fifty or sixty millions of dollars, by giving out their acceptances, to be met by other equally fictitious bills as they fell due. These houses fell into discredit, and informed their correspondents in America that the whole debt must be liquidated at once, or they must become bankrupt. This was in March, when no remittances could be made except in specie, which the banks were called on to furnish. The New York banks went on for something over a month, when they found it impossible to continue. They then suspended,

and with them the whole country. There is nothing like it now, as there is no foreign demand for specie.

The question now arises, What is the remedy?—what is to be done? Nothing can be plainer. The New York banks must retrace their steps, and speedily, or it will be too late. They should at once increase the circulating medium by expanding their discounts ten or fifteen millions of dollars. No other course will set the wheels in motion.

NATHAN APPLETON.

Boston, October 12, 1857.

TABLE OF THE BANKS IN THE CITY OF NEW YORK.

1857.	Specie.	Liabilities, consisting of Deposits and Circulation.	Proportion of Specie.
January 3,	11,172,000	104,000,000	11 per cent.
April 4,	11,538,000	106,000,000	11 "
July 3,	12,837,000	108,000,000	12 "
August 15,	11,360,000	101,000,000	11 "
" 22,	10,197,000	98,000,000	10 "
" 29,	9,201,000	93,000,000	10 "
Sept'r 5,	10,227,000	88,000,000	11½ "
" 12,	12,181,000	85,000,000	14 "
" 19,	13,556,000	84,000,000	16 "
" 26,	13,327,000	81,000,000	16½ "
October 3,	11,400,000	76,000,000	15 "
" 10,	11,476,000	71,000,000	16 "

Since the above was written, we have the returns of the banks of New York for another week, showing a further contraction of four millions. The further persistence in a wrong course, has produced its natural result. It has frightened the community until the banks are driven to the desperate remedy of suspension.

AFTER SUSPENSION.

October 17,	7,843,000	61,000,000	13 per cent.
" 24,	10,411,000	64,000,000	16 "
" 31,	12,883,000	68,000,000	19 "
Nov'r 7,	16,492,000	75,000,000	22 "
" 14,	19,451,000	79,000,000	24½ "

The circulation varying very little from eight millions, the increase or diminution of discounts is shown in the deposits.

P. S. It is well understood that the actual suspension of the New York banks was not the result of natural causes, but arose from the disgust and indignation of the merchants, who viewed the action of the banks in its true light, and were determined to let them know that driven to the wall and crushed as they were, they were still able to retaliate by using their power. This was acting out the common principles of human nature. They were indignant that the banks, after providing for their own safety and being relatively stronger than they had been for two years, should continue the violent system of contraction which was prostrating solvent houses in every direction. It was a narrow selfish policy, without reference to their high duty as guardians of the currency of the country.

It is difficult to say where the responsibility lies for this lamentable mistake. It is impossible to consider the aggregate of the banks other than a unit, although it is well known that many of the oldest and most respectable of the bank directors deprecate the course of continued contraction. Doubtless the directors of the strongest and most powerful of the banks must by their own action have controlled the action of the whole. It is impossible, on a full review of the subject, to aquit the leaders, whoever they were, of a ruinous failure in the performance of their duty.

Our delicately-balanced system of circulation and credit, instead of being regulated with judgment and discretion, has been shattered and overthrown by unskilful hands. The whole thing has been a mistake and a blunder, preposterously continued. On the 5th September the banks were perfectly safe, trade was expanded, but not in excess, and all was well. The banks had only to stand as they were and we should have had no bank suspensions whatever. Even Philadelphia, with her suspensive proclivities, imbibed from Mr. Biddle, would have left the rotten Bank of Pennsylvania to her fate. With the New York banks there was no just cause for suspension. We have seen that it was not the result of their weakness, but of their strength which they refused to use.

The only plea brought forward in justification of the course of the New York banks, consists in endowing them with the gift of foreseeing events, in taking effects for causes. Can banks avoid contracting during a severe money pressure? during a panic? when failures were impending? when there was a tendency to hoarding? with country banks calling for specie? All these were simply the natural effects of the violent continued contraction, but in no sense a cause for it.

The banks were making a new experiment in banking, they seemed disposed to try how far a contraction of the circulation could be carried, without regard to consequences. It has reached forty per cent. It has not only paralyzed all action in this country, it has even disturbed the currency of England and France. Even now, with more specie than ever before, with double the average, they neither resume nor expand. They should do both.

N. A.

Boston, Nov. 20, 1857.

13-4586